

**Viral V. Acharya, Thomas F. Cooley,
Matthew P. Richardson, and Ingo Walter:
Regulating Wall Street—The Dodd-Frank Act
and the New Architecture of Global Finance**
John Wiley & Sons, 2010, 573 pages, approx. 50 USD

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The financial crisis of 2007 to 2009 is a prime example of how imprudent banking regulation can create contagious financial turbulence and expose the global financial system to the threat of a collapse. In response to the crisis, the U.S. government therefore introduced the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. With the passage of the law in July last year, the U.S. financial industry is now confronted with a multitude of profound structural changes. However, concerning the reform's complexity and the gravity of its implications, one might want to ask for the validity of the regulatory routes taken and decisions made. In the five interdependent sections of *Regulating Wall Street—The Dodd-Frank Act and the New Architecture of Global Finance*, Acharya, Cooley, Richardson and Walter, together with other authors from the NYU, provide the answer to this important question.

As a basic introduction, the first part of the book lays out the objectives of successful financial architecture and juxtaposes them with the new financial structures that emerge from the Dodd-Frank Act. Moreover, it specifically addresses the difficult new supervisory mandates and constrained intervention powers that were imposed on the Federal Reserve System.

Centered upon systemic risk, the second part includes a large number of the book's key aspects of analysis. Logically well-structured, the authors start out with a discussion of the act's approach to measuring systemic risk and introduce explicit methodological improvements on current regulation. Subsequently, they explain and advocate the advantages of a direct systemic risk charge over a system of capital requirements, i.e., the policy chosen by the Dodd-Frank Act, which is examined consequently. In this context, the book also highlights historical shortcomings of the Basel

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framework that came into effect at the origin of the financial crisis and how this new U.S. regulation now partially tries to overcome them.

Part three concentrates on the issue of shadow banking, where the authors give strong consideration to the market of repurchase agreements and the regulation of OTC derivatives. Specifically, they expound on how the Dodd-Frank Act's disregard of the necessity of a repo market reform compromises the regulation's objective to counteract financial instability. In contrast, they approve of many of the amendments introduced to the market structure of OTC derivatives with respect to its opacity and deficient regulation in the past.

The fourth part of the book assesses credit markets and explains the severe deficiency of the Dodd-Frank Act in that it does not attend to the problem of government-sponsored enterprises (e.g., the Federal National Mortgage Association). Moreover, the authors describe the ambivalent role of rating agencies in the financial crisis before looking into the securitization reform, where they focus on reform actions taken to reduce adverse selection in the securitization market and improve financial transparency.

The last part of the book leaves the world of macro-prudential regulation to emphasize the importance of regulatory changes at the corporate level, where the authors evaluate the extensive reforms of compensation systems. In a final chapter, consideration is given to a number of financial reporting issues that contributed to the financial crisis and recommendations are made that could mitigate or resolve these problems.

With extensive theoretic and historical introductions to its topics, the book is directed at a rather broad audience including readers new to the topic of financial regulation. It is probably for the same reason that the authors refrain from providing any numeric models that underlie their theoretic reasoning and analyses. Concerning their judgments, the authors express their criticism very constructively in that the disclosure of regulatory shortfalls is usually accompanied by alternatives and suggestions for improvement.

A positive, albeit obligatory, side-effect is the detailed discussion of the financial crisis. The authors use a clear structure to explain the historical and regulatory background of the evolution of the crisis and use their explanation to lead the reader to the by then seemingly inevitable events that occurred between 2007 and 2009. At the same time, the authors do not appear to be aware of the high degree of thematic interdependences between the book's parts, which leads to a great deal of repetition, especially when a new topic or specific argument is being introduced. While this bears the advantage that each part of the book resembles a self-contained partition, it might also make room for condensation.

For the most part, the authors abstain from lengthy quotations of articles and paragraphs. Therefore, the book should not be mistaken for an alternative to a thorough examination of the act itself. In fact, quite the opposite is true. Numerous notes and references to papers and the act's legal text enable and motivate the reader to deepen his or her understanding of the material and demonstrate how well the authors are able to substantiate their arguments. Thus, rather than a summary, the book resembles a detailed assessment of the economic implications, regulatory omissions and pitfalls, as well as promising legislative changes of the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010.